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September 1, 2006

**VIA ELECTRONIC FILING AND HAND DELIVERY**

Mr. Charles L.A. Terreni  
Chief Clerk/Administrator  
South Carolina Public Service Commission  
101 Executive Center Dr., Suite 100  
Columbia, SC 29210

**VIA ELECTRONIC FILING AND OVERNIGHT MAIL**

Patricia Banks Morrison, Esquire  
South Carolina Electric and Gas Co., Inc..  
1426 Main Street  
Columbia, South Carolina 29201

Re: Audit Report of the South Carolina Office of Regulatory Staff's Review of South Carolina Electric and Gas Company, Inc.'s Monitoring Report under the Natural Gas Rate Stabilization Act for the Twelve-Month Period Ending March 31, 2006

**Docket No. 2006-157-G**

Gentlemen:

The South Carolina Office of Regulatory Staff ("ORS"), in accordance with the Natural Gas Rate Stabilization Act, S.C. Code Ann §§ 58-5-400, et seq., ("The Natural Gas Rate Stabilization Act" or "The Act"), conducted a review of South Carolina Electric and Gas Company, Inc.'s ("SCE&G" or "the Company") Monitoring Report for the twelve-month period ending March 31, 2006. The review was conducted for the purpose of determining the Company's compliance with Section 58-5-430 and Section 58-5-440 of the Act.

The Company reported in its March 31, 2006, Quarterly Report a rate of return and return on common equity of 5.30% and 4.40%, respectively. The Company's calculation of additional revenue required to restore return on common equity to the 10.25% level authorized in its most recent rate case (Order No. 2005-619 issued in Docket No. 2005-116-G on October 31, 2005) was an additional \$18,175,727.

Based upon its review, ORS is proposing certain adjustments (see Schedule 2) to bring the Company's Monitoring Report into conformance with Section 58-5-430 and Section 58-5-440 of the Act.

The Office of Regulatory Staff calculated the Company's rate of return and return on common equity as 5.43% and 4.62%, respectively, after accounting and pro forma adjustments. Therefore, in accordance with the guidelines of the Act, the Company is entitled to an increase in rates sufficient to achieve a return on common equity equaling 10.25% as authorized in Order No. 2005-619. Accordingly, ORS recommends that the Company's increase request be reduced by \$738,333 resulting in an increase to revenues of \$17,437,394. After the proposed increase, the Company's rate of return and return on common equity will be 8.52% and 10.25%, respectively.

The following is a summary of the Dockets relative to the Company's most recent rate adjustments:

Date of Order	Docket Number	Amount Requested	Amount Granted	Approved Return on Equity
11-30-1989	89-245-G	\$11,333,163	\$10,139,314	12.75%
10-31-2005	2005-113-G	\$28,482,731	\$22,857,839	10.25%

The following is a description of Schedules prepared by ORS as a result of its review of the Company's filing:

**Schedule 1** presents the Company's operating experience, rate base and rates of return for the year ended March 31, 2006, and the accounting and pro forma adjustments which are necessary to normalize the Company's operations both before and after the effect of the requested increase. Utilizing the per book rate base of \$292,769,639 and income of \$15,529,411, ORS computed a rate of return on per book operations of 5.30% with a corresponding return on common equity of 4.40%. Accounting and pro forma adjustments increased Operating Income to \$18,796,666 and increased rate base to \$346,333,163. The return on common equity computed by ORS after accounting and pro forma adjustment was 4.62%. After the adjustment for the proposed margin increase of \$17,437,394, operating income increased to \$29,507,512 while rate base remained at \$346,333,163. The rate of return on rate base computed by ORS after the adjustment for the proposed increase is 8.52%. The return on common equity is 10.25%.

**Schedule 2** presents an explanation of the accounting and pro forma adjustments ORS considers necessary for the Company's report to conform with Section 58-5-430 and Section 58-5-440 of the Act. For comparative purposes, the adjustments of both the Company and ORS are presented.

**Schedule 3** presents the calculation of the weighted average cost of capital used by the Company in calculating its return on common equity both before and after its proposed increase. The rate base, as shown on Schedule 1, is allocated between long term debt, preferred stock and common equity according to the respective ratios as computed using the Company's capital structure as of March 31, 2006. The amount of total income for return necessary to cover an embedded cost rate of 6.41% on long term debt is computed to be \$9,411,701. The amount of total income for return necessary to cover an embedded cost rate of 6.41% on preferred stock is computed to be \$590,888. The remainder of the total income for return of \$8,794,077 is income to common equity. Such remainder produced a return of 4.62% on common equity before the requested increase. The overall cost of capital after accounting and pro forma adjustments but prior to the requested increase is 5.43%. Such overall cost equals the rate of return on rate base shown on Schedule 1.

After the proposed increase of \$17,437,394 income available to common equity increases to \$19,504,923 and return on common equity increases to 10.25%. Overall cost of capital as detailed in Schedule 3 equals 8.52%. Such overall cost of capital equals the rate of return on Schedule 1.

Respectfully submitted by,

  
Shannon Bowyer Hudson, Esquire

- and -

  
Jay R. Jashinsky, CPA

**South Carolina Electric & Gas Company**  
**Operating Experience - Total Gas**  
**For the Test Year Ended March 31, 2006**

Description	Per Regulatory Books	Accounting & Pro Forma Adjustments	As Adjusted	Total Proposed Increase	Total After Settlement Increases
<b><u>Operating Revenues</u></b>	\$ 546,128,364	\$ 11,517,769 (A)	\$ 557,646,133	\$ 17,437,394 (N)	\$ 575,083,527
<b><u>Operating Expenses:</u></b>					
O&M Expenses - Cost of Gas	450,424,300		450,424,300		450,424,300
O&M Expenses - Other	50,190,878	1,262,941 (B)	51,453,819		51,453,819
Dep. & Amort. Expenses	15,621,961	3,773,154 (C)	19,395,115		19,395,115
Taxes Other Than Income	11,602,259	2,092,222 (D)	13,694,481	91,895 (O)	13,786,376
State Income Taxes	379,777	146,692 (E)	526,469	867,275 (P)	1,393,744
Federal Income Taxes	2,271,220	975,505 (F)	3,246,725	5,767,378 (Q)	9,014,103
<b><u>Total Operating Expenses</u></b>	<b><u>530,490,395</u></b>	<b><u>8,250,514</u></b>	<b><u>538,740,909</u></b>	<b><u>6,726,548</u></b>	<b><u>545,467,457</u></b>
<b><u>Total Operating Income</u></b>	<b><u>15,637,969</u></b>	<b><u>3,267,255</u></b>	<b><u>18,905,224</u></b>	<b><u>10,710,846</u></b>	<b><u>29,616,070</u></b>
Interest on Customer Deposits	(108,558)	-	(108,558)		(108,558)
<b><u>Net Income for Return</u></b>	<b><u>15,529,411</u></b>	<b><u>3,267,255</u></b>	<b><u>18,796,666</u></b>	<b><u>10,710,846</u></b>	<b><u>29,507,512</u></b>
<b><u>Rate Base:</u></b>					
Gross Plant in Service	572,377,120	36,449,827 (G)	608,826,947		608,826,947
Reserve for Depreciation	(228,899,606)	(26,632,855) (H)	(255,532,461)		(255,532,461)
Net Plant in Service	343,477,514	9,816,972	353,294,486		353,294,486
Construction Work in Process	5,129,739	(794,939) (I)	4,334,800		4,334,800
Accum. Deferred Income Taxes	(44,218,935)		(44,218,935)		(44,218,935)
Environmental Costs	2,900,850		2,900,850		2,900,850
OPEB's	(9,337,330)	(86,840) (J)	(9,424,170)		(9,424,170)
Reg. Asset for Unrcvrd PAP	-	2,156,119 (K)	2,156,119		2,156,119
Injuries & Damages	(387,374)		(387,374)		(387,374)
Materials & Supplies	1,245,744	42,314,344 (L)	43,560,088		43,560,088
Total Working Capital	6,273,860	157,868 (M)	6,431,728		6,431,728
Prepayments	(912,426)		(912,426)		(912,426)
Average Tax Accruals	(5,293,597)		(5,293,597)		(5,293,597)
Customer Deposits	(6,108,406)		(6,108,406)		(6,108,406)
<b><u>Total Rate Base</u></b>	<b><u>292,769,639</u></b>	<b><u>53,563,524</u></b>	<b><u>346,333,163</u></b>	<b><u>-</u></b>	<b><u>346,333,163</u></b>
<b><u>Rate of Return</u></b>	<b><u>5.30%</u></b>		<b><u>5.43%</u></b>		<b><u>8.52%</u></b>
<b><u>Return on Common Equity</u></b>	<b><u>4.40%</u></b>		<b><u>4.62%</u></b>		<b><u>10.25%</u></b>

South Carolina Electric & Gas Company  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended March 31, 2006

Schedule 2

<u>Description</u>		<u>Per</u> <u>SCE&amp;G</u>	<u>Per</u> <u>ORS</u>
<b>(A) <u>Operating Revenues</u></b>			
1	SCE&G and ORS propose to annualize Revenues from Lateral transfers from contract rates to published tariff rates	\$ 557,922	\$ 557,922
2	SCE&G and ORS propose to annualize Revenues for approved revenue increase. ORS recalculated the adjustment for the months of April thru October 2005, based on the rate increase effective November 1, 2005 utilizing the method traditionally recognized by the Commission to annualize	9,406,491	10,144,828
3	SCE&G and ORS propose to add Revenues for refunds related to a prior period	515,019	515,019
4	SCE&G and ORS propose to add Revenues for a new industrial contract	300,000	300,000
<b><u>Total Operating Revenues</u></b>		<u>\$ 10,779,432</u>	<u>\$ 11,517,769</u>
<b>(B) <u>Operating and Maintenance Expense</u></b>			
5	SCE&G and ORS propose to annualize Wages and Benefits	\$ 445,353	\$ 445,353
6	SCE&G and ORS propose to remove 50% of employee & officer bonuses	(843,790)	(843,790)
7	SCE&G and ORS propose to adjust Employee Benefits:		
a.	Annualize Pension Income	312,077	312,077
b.	Annualize Other Post Employment Benefits	140,632	140,632
8	SCE&G and ORS propose to remove operating expenses related to Employee Clubs	(48,579)	(48,579)
9	SCE&G and ORS propose to annualize ongoing expenses for pipeline integrity expenses	475,676	475,676
10	SCE&G and ORS propose to add expenses related to LNG asset transfer	1,530,866	1,530,866
11	SCE&G and ORS propose to remove rate case expenses for outside services for 2005 Gas Rate Case	(749,294)	(749,294)
<b><u>Total Operating and Maintenance Expense</u></b>		<u>\$ 1,262,941</u>	<u>\$ 1,262,941</u>
<b>(C) <u>Depreciation and Amortization Expense</u></b>			
12	SCE&G and ORS propose to adjust Amortization of Long Term Disability liability	\$ 79,101	\$ 79,101
13	SCE&G and ORS propose to remove depreciation expense related to Employee Clubs	(75,063)	(75,063)
14	SCE&G and ORS propose to annualize the amortization of Manufactured Gas Plant remediation costs	238,130	238,130
15	SCE&G and ORS propose to add depreciation reserve for CWIP Additions	9,599	9,599
16	SCE&G and ORS propose to annualize depreciation rates	2,726,220	2,726,220
17	SCE&G and ORS propose to make the following adjustments related to the retirement of the Propane Air Plants:		
a.	Remove depreciation related to retirement of the Propane Air assets	(234,939)	(234,939)
b.	Add amortization of the regulatory asset resulting from Propane Air Plant retirements	446,094	446,094
18	SCE&G and ORS propose to add depreciation related to LNG asset transfer	580,416	580,416
19	SCE&G and ORS propose to add depreciation for plant additions relating to new industrial contract	3,596	3,596
<b><u>Total Depreciation and Amortization Expense</u></b>		<u>\$ 3,773,154</u>	<u>\$ 3,773,154</u>

**South Carolina Electric & Gas Company**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended March 31, 2006**

Schedule 2

<u>Description</u>		<u>Per</u> <u>SCE&amp;G</u>	<u>Per</u> <u>ORS</u>
<b>(D)</b>	<b><u>Taxes Other Than Income</u></b>		
20	SCE&G and ORS propose to annualize Gross Receipts Tax on Revenues from Lateral transfers:		
a.	Annualize Laterals transferred in May 2005	\$ 342	\$ 342
b.	Adjust lateral customer revenue for tariff rates	2,598	2,598
21	SCE&G and ORS propose to annualize payroll taxes for Wages and Benefits	31,640	31,640
22	SCE&G and ORS propose to remove 50% of payroll taxes related to employee & officer bonuses	(71,300)	(71,300)
23	SCE&G and ORS propose to adjust Property Tax expense	1,533,328	1,533,328
24	SCE&G and ORS propose to add Property Taxes related to LNG asset transfer	529,409	529,409
25	SCE&G and ORS propose to annualize Gross Receipts tax on Revenues for approved revenue increase	49,572	53,463
26	SCE&G and ORS propose to adjust Gross Receipts tax for Revenues added for refunds related to a prior period	2,714	2,714
27	SCE&G proposes to add property tax & gross receipts tax relating to new industrial contract	10,028	10,028
	<b><u>Total Taxes Other Than Income</u></b>	<b><u>\$ 2,088,331</u></b>	<b><u>\$ 2,092,222</u></b>
<b>(E)</b>	<b><u>State Income Taxes:</u></b>		
	SCE&G and ORS propose to adjust state income taxes (rate of 5%) to reflect the impact on income of adjustments to operating revenues and expenses.	\$ 109,969	\$ 146,692
	<b><u>Total State Income Taxes:</u></b>	<b><u>\$ 109,969</u></b>	<b><u>\$ 146,692</u></b>
<b>(F)</b>	<b><u>Federal Income Taxes</u></b>		
	SCE&G and ORS propose to adjust Federal income taxes (rate of 35%) to reflect the impact on income of adjustments to operating revenues and expenses.	\$ 731,301	\$ 975,505
	<b><u>Total Federal Income Taxes:</u></b>	<b><u>\$ 731,301</u></b>	<b><u>\$ 975,505</u></b>
<b>(G)</b>	<b><u>Plant in Service</u></b>		
28	SCE&G and ORS propose to remove Employee Clubs	\$ (513,115)	\$ (513,115)
29	SCE&G and ORS propose to recognize property retirements	(133,947)	(133,947)
30	SCE&G and ORS propose to increase plant in service for CWIP additions through April 2006	690,644	690,644
31	SCE&G and ORS propose to remove Propane Air Plants	(10,806,520)	(10,806,520)
32	SCE&G and ORS propose to add LNG Assets	46,939,329	46,939,329
33	SCE&G and ORS propose to add plant relating to New Industrial Contract	273,436	273,436
	<b><u>Total Plant in Service</u></b>	<b><u>\$ 36,449,827</u></b>	<b><u>\$ 36,449,827</u></b>

South Carolina Electric & Gas Company  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended March 31, 2006

Schedule 2

<u>Description</u>		<u>Per</u> <u>SCE&amp;G</u>	<u>Per</u> <u>ORS</u>
(H)	<b><u>Accumulated Depreciation</u></b>		
34	SCE&G and ORS propose to remove Employee Clubs	\$ 115,179	\$ 115,179
35	SCE&G and ORS propose to recognize property retirements	133,947	133,947
36	SCE&G and ORS propose to increase plant in service for CWIP additions through April 2006	(9,599)	(9,599)
37	SCE&G and ORS propose to annualize depreciation	(2,726,220)	(2,726,220)
38	SCE&G and ORS propose to remove Propane Air Plants	5,885,653	5,885,653
39	SCE&G and ORS propose to add accumulated depreciation for LNG Assets	(30,028,219)	(30,028,219)
40	SCE&G and ORS propose to add depreciation for plant addition relating to New Industrial Contract	(3,596)	(3,596)
	<b><u>Accumulated Depreciation</u></b>	<u>\$ (26,632,855)</u>	<u>\$ (26,632,855)</u>
(I)	<b><u>CWIP</u></b>		
41	SCE&G and ORS propose to remove CWIP associated with Employee Clubs	\$ (3,919)	\$ (3,919)
42	SCE&G and ORS propose to decrease CWIP closed to Plant in Service through April 2006	(628,069)	(628,069)
43	SCE&G and ORS propose to remove CWIP relating to New Industrial Contract that has been moved to Plant In Service	(162,951)	(162,951)
	<b><u>Total CWIP</u></b>	<u>\$ (794,939)</u>	<u>\$ (794,939)</u>
(J)	<b><u>Deferred Debits/Credits</u></b>		
44	SCE&G and ORS propose to annualize Other Post Employment Benefits	\$ (86,840)	\$ (86,840)
	<b><u>Total Deferred Debits/Credits</u></b>	<u>\$ (86,840)</u>	<u>\$ (86,840)</u>
(K)	<b><u>Regulatory Assets</u></b>		
45	SCE&G and ORS propose to add regulatory asset for unrecovered balance associated with Propane Air Plant retirement	\$ 2,156,119	\$ 2,156,119
(L)	<b><u>Materials &amp; Supplies</u></b>		
46	SCE&G and ORS propose to remove inventory associated with Propane Air Plants	\$ (888,327)	\$ (888,327)
47	SCE&G and ORS propose to add inventory associated with LNG asset transfer	\$ 11,640,638	11,640,638
48	SCE&G and ORS propose to add inventory associated with upstream assets	\$ 31,562,033	31,562,033
	<b><u>Total Materials &amp; Supplies</u></b>	<u>\$ 42,314,344</u>	<u>\$ 42,314,344</u>
(M)	<b><u>Working Capital</u></b>		
49	SCE&G and ORS propose to adjust cash working capital	\$ 157,868	\$ 157,868
	<b><u>Total Working Capital</u></b>	<u>\$ 157,868</u>	<u>\$ 157,868</u>
	<b><u>Operating Revenues for Proposed Increase</u></b>		
(N)	SCE&G and ORS propose to adjust revenues for the proposed increase	\$ 18,175,727	\$ 17,437,394
	<b><u>Total for Proposed Increase</u></b>	<u>\$ 18,175,727</u>	<u>\$ 17,437,394</u>

South Carolina Electric & Gas Company  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended March 31, 2006

Schedule 2

<u>Description</u>		<u>Per</u> <u>SCE&amp;G</u>	<u>Per</u> <u>ORS</u>
(O)	<b><u>Taxes Other Than Income</u></b>		
	SCE&G and ORS propose to adjust Gross Receipts tax to reflect the proposed increase	\$ <u>95,786</u>	\$ <u>91,895</u>
	<b><u>Total Taxes Other Than Income</u></b>	\$ <u>95,786</u>	\$ <u>91,895</u>
(P)	<b><u>State Income Taxes for Proposed Increase</u></b>		
	SCE&G and ORS propose to adjust state income taxes (rate of 5%) to reflect the impact on income of adjustments to operating revenues and expenses related to the proposed increase	\$ <u>903,997</u>	\$ <u>867,275</u>
	<b><u>Total State Taxes for Proposed Increase</u></b>	\$ <u>903,997</u>	\$ <u>867,275</u>
(Q)	<b><u>Federal Income Tax for Proposed Increase</u></b>		
	SCE&G and ORS propose to Federal income taxes (rate of 35%) to reflect the impact on income of adjustments to operating revenues and expenses related to the proposed increase	\$ <u>6,011,505</u>	\$ <u>5,767,378</u>
	<b><u>Total Federal Income Tax for Proposed Increase</u></b>	\$ <u>6,011,505</u>	\$ <u>5,767,378</u>



South Carolina Electric & Gas Company  
 Weighted Cost of Capital  
 As of March 31, 2006

Description	Capital Structure		Regulatory Per Books				As Adjusted				After Proposed Increase			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 1,830,462,526	42.40%	\$ 124,120,082	6.41%	2.72%	\$ 7,956,097	\$ 146,828,410	6.41%	2.72%	\$ 9,411,701	\$ 146,828,410	6.41%	2.72%	\$ 9,411,701
Preferred Stock	114,920,650	2.66%	7,792,544	6.41%	0.17%	499,502	9,218,225	6.41%	0.17%	590,888	9,218,225	6.41%	0.17%	590,888
Common Equity	2,372,240,900	54.94%	160,857,013	4.40%	2.42%	7,073,812	190,286,528	4.62%	2.54%	8,794,077	190,286,528	10.25%	5.63%	19,504,923
Totals	\$ 4,317,624,076	100.00%	\$ 292,769,639		5.30%	\$ 15,529,411	\$ 346,333,163		5.43%	\$ 18,796,666	\$ 346,333,163		8.52%	\$ 29,507,512